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August 28, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo 
Auditor-Controller

SUBJECT: **SHERIFF'S DEPARTMENT – REVIEW OF TRANSACTIONS BETWEEN
LOS ANGELES COUNTY AND PALANTIR TECHNOLOGIES, INC.
(Board Agenda Item 7, April 14, 2015)**

On April 14, 2015, your Board instructed the Auditor-Controller (A-C), in consultation with the Inspector General, to audit all transactions between Los Angeles County (County) and Palantir Technologies Inc. (Palantir) to determine whether any Board policies or applicable laws had been violated, and to recommend appropriate action. All of the County's transactions with Palantir were completed by the Sheriff's Department (Sheriff or LASD).

Background

Palantir is a computer software and services company that provides large-scale data integration, analysis, visualization, and management. Many federal, State, and local government agencies use Palantir's commercial software for anti-fraud and counter-terrorism efforts to facilitate analysis of intelligence, for collaboration on investigations, and for case management and reporting.

The Sheriff's transactions with Palantir comprise 12 purchase orders issued between December 2009 and April 2015. Eleven of the 12 purchases were made by the Sheriff in its role as the fiduciary for the Joint Regional Intelligence Center (JRIC), a law enforcement fusion center whose purpose is to collect, analyze, and disseminate terrorism-related threat intelligence for the greater Southern California area. JRIC's participating agencies include the Federal Bureau of Investigation, California Highway

Patrol, and many other safety and law enforcement agencies such as LASD and the Los Angeles Police Department.

In its role as JRIC's fiduciary, the Sheriff receives funding from two federal Homeland Security Grant programs on behalf of JRIC. The Sheriff has paid Palantir a total of \$17.1 million: \$16.6 million in federal grant funds to purchase Palantir products and services for JRIC, and \$500,000 in Departmental Federal Asset Forfeiture funds for LASD to implement Palantir access for its personnel via computers in patrol cars. All of the transactions were made as sole source commodity purchases.

The Sheriff receives the grant funds by claims reimbursement, i.e., the Sheriff incurs and pays eligible expenses on behalf of JRIC using County funds, then submits claims for reimbursement. Given that the Sheriff uses County funds for the Palantir purchases for JRIC, all such purchases must comply with County policies and procedures, including Board policies and County purchasing standards.

Scope of Review

We reviewed the Sheriff's compliance with County and Departmental policies and procedures, and other applicable laws, related to its transactions with Palantir. We also reviewed purchasing documentation, as well as documents and correspondence provided by LASD, the Internal Services Department (ISD), the Chief Information Office (CIO), and County Counsel. In addition, we met with JRIC representatives, Sheriff, ISD, and CIO managers and personnel, and consulted with counsel for Palantir and the County. We also reviewed the Palantir implementation at the JRIC and observed demonstrations of the system and its functionality.

Results of Review

Overall, the Sheriff, acting as a fiduciary for JRIC, generally purchased goods and services from Palantir in accordance with applicable federal, Board, and County policies, though we did note a single retroactive payment. The Sheriff also appears to have complied with sole source purchase requirements, including obtaining approval to spend grant funds on Palantir products from the California Governor's Office of Emergency Services (the granting agency) and the City of Los Angeles (the primary grantee; LASD is a grant sub-recipient). We noted that the Sheriff was fully reimbursed for each of the 11 purchases made with federal grant funds, and that the Sheriff's use of Federal Asset Forfeiture funds for their own implementation of Palantir was in accordance with the guidelines for these funds.

While we did not find overt violations of purchasing policies, our review noted areas where the Sheriff needs to strengthen its procedures for processing Palantir purchases, and for procuring and implementing information technology and systems. For example, the Sheriff:

- Procured Palantir for JRIC without any documented and defined specifications or technical requirements describing JRIC's data analysis needs. As a result, we

could not determine if there are other competing products that might be able to meet the Sheriff's or JRIC's needs in addition to Palantir.

- Approved Palantir invoices for payment even though the invoices did not separately list the cost of equipment, software and/or service(s) purchased, and sometimes lacked other required information. For example, one maintenance-related invoice was approved for payment even though it did not specify the term of the maintenance agreement, and therefore lacked sufficient information to be paid. The Sheriff should work with Palantir to obtain additional information to differentiate between the cost of commodities and services (which are treated differently under County purchasing policies), and ensure that it obtains sufficiently detailed invoices so that purchases are processed in accordance with applicable policies and that the Board is notified of purchases when required (Recommendation 5).
- Did not seek clarification for vague product descriptions indicated on Palantir invoices. We found that Palantir's bundled products may include software licenses, hardware, support services, etc., but these items are described in only general terms on invoices, leading to confusion about what was purchased and how to classify it. The Sheriff should work with Palantir, the County Purchasing Agent (i.e., ISD), and County Counsel to establish agreed-upon product terminology and procedures for evaluating and accounting for such purchases (Recommendation 12).
- Did not separately identify or account for the cost of servers that were included with most purchases. As a result, capital assets (i.e., assets valued at \$5,000 or greater) were not recorded in the County's electronic Countywide Accounting and Purchasing System (eCAPS), as required. While JRIC has an inventory of the servers, the assets were not accounted for in the Sheriff's equipment inventory. While all Palantir-related equipment appears to be accounted for, the Sheriff should ensure that all capital equipment is properly identified, inventoried, and recorded in eCAPS (Recommendations 1 and 2).
- Did not obtain the required purchasing authorization before incurring obligations to Palantir for maintenance, resulting in a retroactive payment. The Sheriff appropriately notified your Board concerning the payment, and has indicated its intent to follow up with the Retroactive Contract Review Committee to prevent additional retroactive payments (Recommendations 7 and 8).
- Does not have a formal agreement with Palantir for ongoing maintenance services, and does not have documented and defined specifications for JRIC's data analysis system. The Sheriff should work with County Counsel and ISD to establish a Board-approved contract for service purchases from Palantir (Recommendation 13).

As noted above, because Palantir does not detail the composition of the products and services it sells, and uses a bundled pricing model (i.e., a single line-item price for all

services and equipment), their past invoices lacked sufficient information to ensure that County purchasing policies were appropriately applied, or to clearly identify when the Board should have been notified of the purchases. Bundled or composite pricing is not unique to Palantir, and we noted that County procurement policies may need to be updated to account for this type of procurement model, and to ensure that such purchases are more closely scrutinized and subject to additional oversight, including Board notification where appropriate. Specifically, we recommend that ISD:

- Ensure that departments provide sufficient information, such as detailed product descriptions, terms of service, etc., to determine precisely what goods/services are being procured prior to issuing purchase orders (Recommendation 6).
- Enhance procurement policies to provide for additional management review of purchases that may include a service component exceeding \$100,000 (which require a Board contract) (Recommendation 9).

Details of our review, along with recommendations for corrective action, are included in Attachment I.

Review of Report

We discussed our report with Sheriff, ISD, CIO, and JRIC management, and they indicated agreement with our findings and recommendations (Attachments II, III, and IV). We also consulted with the Inspector General on our findings and conclusions.

We thank personnel from the Sheriff, ISD, CIO, and JRIC for their cooperation and assistance during our review. If you have any questions, please call me or your staff may contact Robert Campbell at (213) 974-0681.

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R-2015-10533

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer
Mary C. Wickham, Interim County Counsel
Jim McDonnell, Sheriff
Jim Jones, Director, Internal Services Department
Dave Chittenden, Chief Deputy, Internal Services Department
Richard Sanchez, Chief Information Officer
Patrick Ogawa, Acting Executive Officer, Board of Supervisors
Max Huntsman, Inspector General
Audit Committee
Public Information Office

SHERIFF'S DEPARTMENT REVIEW OF TRANSACTIONS WITH PALANTIR

Background

On April 14, 2015, your Board instructed the Auditor-Controller (A-C), in consultation with the Inspector General, to audit all transactions between Los Angeles County (County) and Palantir Technologies, Inc., (Palantir) to determine whether any Board policies or applicable laws had been violated, and to recommend appropriate action. According to data from the electronic Countywide Accounting and Purchasing System (eCAPS), all of the County's payments to Palantir were made by the Los Angeles County Sheriff's Department (Sheriff or LASD).

Palantir

According to its website, Palantir is a computer software and services company that provides "data fusion platforms for integrating, managing, and securing any kind of data, at massive scale." Many federal, State, and local government agencies, including the federal intelligence and defense sectors, use Palantir commercial software for anti-fraud and counter-terrorism efforts to facilitate analysis of intelligence, for collaboration on investigations, and for case management and reporting. Palantir also offers technology solutions to assist non-profit organizations and governments in responding to disasters and public health emergencies.

A Palantir implementation generally consists of software/user licenses, hardware appliances, and implementation, support and maintenance services. Palantir describes its products as offering a "fully featured, highly configurable commercial solution for data integration, analysis, visualization, and knowledge management." The Palantir implementation procured by the Sheriff incorporates data from many sources to facilitate law enforcement investigations, threat detection, and crime prevention. This data can be rapidly searched, cross referenced, geocoded, and displayed according to strict access controls to assist in investigations and for other authorized law enforcement purposes.

According to Palantir product descriptions, and as indicated on Palantir quotes and invoices, the company prices its products using a "core licensing" model, under which Palantir software is licensed in what the company terms a "core at a firm-fixed" price, bundled with hardware appliances, and support and maintenance services. Palantir indicates the number of cores a customer needs for system deployment is based upon the "data scale, usage characteristics, and user load."

Joint Regional Intelligence Center

Most of LASD's purchases from Palantir were made in its role as the fiduciary for the Joint Regional Intelligence Center (JRIC), a law enforcement fusion center whose purpose is to collect, analyze, and disseminate terrorism-related threat intelligence for a

seven-county region of Southern California. There are 78 fusion centers throughout the U.S., which were jointly created by the U.S. Department of Homeland Security (DHS) and the U.S. Department of Justice. Fusion centers receive federal support, including grant funding from DHS. JRIC's participating agencies include the Federal Bureau of Investigation, California Highway Patrol, Los Angeles County Police Chiefs Association, Los Angeles Area Fire Chiefs Association, LASD, and the Los Angeles Police Department (LAPD).

According to LASD and JRIC management, LASD has served as JRIC's fiduciary since shortly after JRIC's formation in 2006. JRIC has a written Memorandum of Understanding (MOU) between the participating agencies, but the MOU does not specifically define LASD's role within JRIC or identify a specific entity as the fiduciary. However, MOU Section J, Funding, states that, "Expenditures by each party will be subject to its budgetary processes and to the availability of funds and resources pursuant to applicable laws, regulations, and policies."

Funding

As JRIC's fiduciary, LASD receives federal Urban Areas Security Initiative (UASI) grant funds on behalf of JRIC as a sub-recipient of the City of Los Angeles (City), which for purposes of these funds is a grantee of the State of California. The Sheriff also receives State Homeland Security Grant Program (SHSGP) grant funds as a sub-recipient of the Los Angeles County Disaster Administrative Team, which is also a grantee of the State. Both the UASI and SHSGP grant monies are received via claims reimbursement, where the Sheriff incurs and pays eligible expenses on behalf of JRIC using County funds, then submits claims for reimbursement to the City. Given that the Sheriff uses County funds for the Palantir purchases for JRIC, all such purchases must comply with County policies and procedures, including Board policies and County purchasing standards established by the Purchasing Agent (i.e., the Internal Services Department or ISD) and approved by the Board.

We noted that your Board properly approved receipt of the County's UASI and SHSGP allocations for each grant period in which LASD made purchases, as evidenced by Board letters submitted jointly by the Chief Executive Officer (CEO), Sheriff, and the Fire Department. Also, Sheriff's management indicated that since 2006, the Department has requested spending authority in its annual budget for anticipated JRIC expenditures and corresponding grant revenue in the Homeland Security Division (HSD) budget unit.

Since February 2010, the Sheriff has paid Palantir a total of \$17.1 million: \$16.35 million in UASI funds and \$250,000 in SHSGP funds for Palantir products and services procured for JRIC, and \$500,000 in Departmental Federal Asset Forfeiture funds for the Sheriff to implement access via Mobile Digital Computers (MDCs) in Sheriff's patrol cars.

Scope

We reviewed the Sheriff's compliance with County and Departmental policies and procedures, and other applicable laws, related to its transactions with Palantir, which comprise 12 purchase orders (POs) between December 2009 and April 2015. We also reviewed purchasing documentation, as well as documents and correspondence provided by LASD, ISD, the Chief Information Office (CIO), and County Counsel. In addition, we met with JRIC representatives, Sheriff, ISD, and CIO managers and staff, and consulted with counsel for Palantir and the County. We also reviewed the Palantir implementation at the JRIC and observed demonstrations of the system and its functionality.

The following table summarizes LASD's purchase transactions with Palantir.

	Purchase Order #	Payment Date	Purchase Description	Funding Source	Amount
1.	SH-10321758	02/09/2010 through 11/18/2010	Palantir Core – Software Subscription Services (10 installments of \$25,000 on various dates).	UASI	\$250,000
2.	SH-12321611	10/25/2011	Software – 18 Core Perpetual Licenses, Support Services and Product Upgrades, Implementation and Integration, Hardware Appliance.	UASI	2,250,000
3.	SH-12321989	12/08/2011	Software - 2 Core Perpetual Licenses, Support Services and Product Upgrades, Implementation and Integration, Hardware Appliance.	SHSGP	250,000
4.	SH-12322375	02/01/2012	Software - 4 Core Perpetual Licenses, Support Services and Product Upgrades, Implementation and Integration, Hardware Appliance.	UASI	500,000
5.	SH-12323471	05/24/2012	Software - 30 Core Perpetual Licenses Support Services and Product Upgrades, Implementation and Integration.	UASI	3,775,000
6.	SH-13322578	03/21/2013	Software – 4 Core Perpetual Licenses, Support Services and Product Upgrades, Hardware Appliance, Implementation and Integration, Hardware. (For LASD use).	Federal Asset Forfeiture	500,000
7.	SH-13323121	04/05/2013	Palantir Operations and Maintenance for Government License - 52 Cores	UASI	1,000,000
8.	SH-13323247	04/23/2013	Palantir Disaster Recovery License – 128 Cores; Software - 8 Core Perpetual Licenses.	UASI	1,400,000
9.	SH-14323163	04/16/2014	34 Core Perpetual Licenses, per Server Core. Includes initial year Operations and Maintenance.	UASI	4,250,000
10.	SH-14323406	04/16/2014	13 Core Perpetual Licenses, per Server Core. Includes initial year Operations and Maintenance.	UASI	1,625,000

	Purchase Order #	Payment Date	Purchase Description	Funding Source	Amount
11.	SH-14323985	05/29/2014	2 Core Perpetual Licenses, per Server Core.	UASI	250,000
12.	SH-15323319	04/21/2015	Annual Support and Maintenance for one year.	UASI	1,050,000
Total:					\$17,100,000

Findings and Recommendations

We reviewed the 12 transactions between LASD and Palantir, and noted the following:

Transaction 1 – Palantir Pilot Project

JRIC staff indicated that Palantir was originally selected for a pilot project based on the recommendation of a former LASD HSD manager. Beginning in early 2010, JRIC used UASI grant funds to acquire a subscription for a limited version of Palantir's proprietary software for a 10-month pilot. JRIC did not create a list of specifications or performance requirements for the pilot. LASD, on behalf of JRIC, submitted a sole source justification for the purchase to the City, which approved the request and forwarded it to the State. LASD provided documentation indicating that the California Governor's Office of Emergency Services (Cal OES; formerly the California Emergency Management Agency), approved the use of UASI funds to purchase Palantir software as a sole source.

County Code (Code) Section (§) 2.81.800 (et seq.) indicates that the County Purchasing Agent (i.e., ISD) is authorized to issue POs to purchase commodities upon receipt of an approved Departmental requisition. Based on an approved LASD requisition, ISD issued a PO to procure the Palantir software subscription as a sole source transaction. According to County Purchasing Policy #M-1900, monopoly subscriptions, including electronic subscriptions such as software licenses, may be processed without sole source documentation and/or negotiated transactions. ISD indicated that the Palantir pilot purchases appeared to be for licenses to use the software only (each invoice indicates the purchase was for a license and no hardware or other equipment is listed), which qualified as a subscription. Therefore, ISD approved the PO as a subscription for the pilot period. LASD subsequently received UASI reimbursement for the \$250,000 cost of the pilot.

Code § 2.81.960 provides that any sole source purchase over \$5,000 must be reported to the Board on a monthly basis. ISD indicated that because the Palantir pilot was exempt from sole source documentation requirements, it was not subject to disclosure on ISD's monthly report to the Board. However, during our review, Palantir indicated it included four servers with this purchase. Because it is Palantir's practice to bundle its products and not list the prices of individual items on its quotes or invoices, the inclusion of servers is not evident on any purchasing documents the Sheriff provided to ISD.

Since the purchase was not entirely related to a software subscription, sole source documentation and disclosure to the Board were required.

Equipment – Servers

Palantir indicated that in addition to the pilot transaction, it also provided the servers/hardware necessary to support the requirements of the software, data processing, etc., for each of the nine purchases of cores by LASD/JRIC (transactions 2-6 and 8-11). According to Palantir, they delivered a total of 44 servers to JRIC headquarters as part of these transactions. ISD staff indicated that because Palantir bundles all items into one price (with hardware indicated at zero cost), they were not aware that servers were provided at the time of the purchases. The issue of Palantir's bundled pricing model, how it affected the LASD/JRIC purchases, and our recommendations are fully discussed in the Other Issues section of this report, below.

Title 44 of the Code of Federal Regulations (CFR), Part 13, which addresses financial administration of DHS funds, indicates that ownership of equipment acquired under a grant vests with the grantee or subgrantee upon acquisition. The Sheriff is the subgrantee for the UASI and SHSGP grants used for the Palantir purchases. Accordingly, LASD holds title to the servers. The CFR also indicates that detailed property records must be maintained for equipment purchased with grant funds, including a description of the property, serial or other identification number, location, etc.

During a site visit to JRIC, we observed a sample of the Palantir servers and verified that they were appropriately recorded on JRIC's inventory listing. We noted that the Sheriff's official inventory listing did not include all of the information required per the CFR. Specifically, the Sheriff did not record who holds title to the servers, the acquisition date for each server, the cost of the servers, or the percentage of federal participation in their cost.

In addition, County Fiscal Manual (CFM) § 6.1.0, Capital Assets, indicates that equipment, such as computer hardware, having a useful life of more than one year and costing \$5,000 or more is a capital asset. The CFM indicates that, among other requirements, Departments must maintain a record of acquisitions and dispositions of capital assets by using the eCAPS Capital Asset System. We consulted with the A-C's Accounting Division and reviewed eCAPS records, and found no indication that the Palantir servers were recorded as capital assets.

None of the purchasing documentation or Palantir invoices provided by the Sheriff or ISD specified the number of servers purchased or their cost. At our request, Palantir provided a list of the servers included with the Sheriff's purchases. However, Palantir declined to specify the cost per server, and a company representative claimed that unit pricing information "...is Palantir proprietary and trade secret information."

Because Palantir refused to provide us with pricing information, we used publicly available prices for servers and related hardware, obtained from the internet, to estimate the original cost/value of the Palantir servers. Our estimates are based on the

retail price of equipment substantially similar in configuration, capacity, and capability to Palantir-supplied servers at JRIC. Our analysis indicates that most of the servers likely exceeded the \$5,000 threshold at the time of acquisition, and should have been recorded as capital assets per County policy.

Recommendations

Sheriff's management:

- 1. Revise its listing of equipment purchased with Urban Areas Security Initiative and State Homeland Security Grant Program funds to comply with the record keeping requirements specified in Title 44 of Code of Federal Regulations, Part 13.**
- 2. Determine or estimate the acquisition cost of Palantir servers, record any Palantir hardware that meets the County's definition of a Capital Asset (i.e., costing \$5,000 or more) in the electronic Countywide Accounting and Purchasing System, as required by County Fiscal Manual Section 6.1.0, and implement procedures to ensure that future capital asset purchases are appropriately recorded.**

Transactions 2-5 and 8-11 – Palantir Purchases for JRIC

According to JRIC and Sheriff managers, the Palantir pilot was deemed successful by the JRIC leadership team and in October 2011, LASD purchased the Palantir cores and servers required for JRIC to fully implement the system. As additional law enforcement agencies were trained on and began to use the JRIC Palantir platform (which is currently being used by over 25 law enforcement agencies and nearly 5,500 users), and as additional data sources were added to Palantir, it became necessary to purchase additional Palantir cores and servers to maintain intelligence data processing capacity and capability. The following discussion addresses transactions 2-5 and 8-11. Transactions 7 and 12 are purchases of maintenance services only (i.e., not cores) and are addressed separately. Transaction 6 represents a purchase made exclusively for LASD, with Federal Asset Forfeiture Funds, and is also addressed separately.

City and State Approvals

The Sheriff provided us copies of letters from the City and Cal OES indicating that they each approved using UASI grant funds for these eight sole source purchases. The Sheriff also provided documentation confirming that the Department was reimbursed from UASI grant funds for these purchases, which were made on behalf of JRIC.

LASD Approvals

CFM § 4.4.0, Procurement Methods, states that Departmental requisitions used to request goods and services must be approved by the appropriate authority level(s).

Also, if the amount is above the department's delegated purchasing authority, the CFM indicates the requisition should be electronically transmitted to ISD's Purchasing Agent.

We noted that LASD requisitions for each Palantir purchase contained appropriate management level approvals as required by the CFM. Each requisition exceeded LASD delegated purchasing authority (i.e., over \$15,000), and LASD properly submitted each requisition to ISD for approval.

ISD Approvals

County Purchasing Policy #P-3700 indicates that sole source purchases over \$5,000 must be approved by the Purchasing Agent, may be awarded without bidding when the item can be obtained only from one source, and the sole source acquisition must be adequately justified. The Policy also specifies that Departments must demonstrate that the sole sourced commodity is available from only one source, that the brand must match or inter-member with an existing system, etc.

We noted that for all Palantir purchases, LASD completed and submitted standard County sole source questionnaires with the requisitions. According to the questionnaires, "Palantir is the only software that analyzes this kind of data at the law enforcement level." However, we cannot evaluate this conclusion because the Sheriff did not develop formal requirements before procuring Palantir. Palantir correspondence included in the purchasing packets indicate its software is proprietary, and that it holds patents, trademarks, etc., to its intellectual property, for which Palantir is the sole provider. ISD approved the LASD purchases from Palantir as they each met the criteria for sole source commodities.

County Purchasing Policy #P-0800 indicates that for negotiated transactions (i.e., purchase orders and agreements established without a competitive bid process), ISD will complete a Negotiated Purchase Documentation form to document and justify the transaction. We verified that ISD completed this form for each Palantir purchase.

ISD Monthly Report to the Board

As indicated, County Code § 2.81.960 states that any sole source purchase over \$5,000 must be reported to the Board on a monthly basis. ISD appropriately reported each of the eight LASD sole source Palantir purchases on its monthly Report on Negotiated/Sole Source Purchases to the Board.

CIO Approvals

According to Board Policy #6.020, Chief Information Office Board Letter Approval, to ensure continuity Countywide in the implementation or modification of information management systems, it is "essential for the CIO to review all requests from County departments" for purchases of information technology (IT)-related software, equipment, etc. This Policy states that departments are required to obtain CIO review and approval

on “all purchases” of computer based software, equipment or services prior to finalizing such acquisitions.

We noted that four (transactions 1, 3, 4, and 5) of the nine (44%) JRIC Palantir purchases were not reviewed by the CIO. During our review, we noted that CIO and ISD management expressed differing views of the CIO’s role in review/approval of these purchases, and also of the intent and applicability of Board Policy #6.020. ISD management indicated that, based on historical discussions with CIO staff, the Policy was applicable to those IT purchases requiring Board approval, and that it was not intended to require CIO review/approval of all IT purchases. CIO management indicated that the Policy required CIO review and approval of all IT purchases, but that the Policy had not been fully implemented in process or practice. These discrepancies indicate the need for additional clarification on how the policy should be implemented and its applicability.

In May 2014 (i.e., after all but the last Palantir purchase were completed), the CIO issued to the CIO Council a clarifying IT Procurement matrix which incorporates reviews by ISD Purchasing, to ensure that each IT purchase request is properly evaluated. This matrix indicates that, among other requirements, ISD Purchasing will submit to the CIO requests for new software, new upgrades, and new maintenance for review/approval, and submit renewals or updates greater than \$100,000, to the CIO for review/approval (if CIO approval has not already been obtained by the purchasing department).

CIO managers indicated that the requirements in the matrix were approved by ISD and discussed with the CIO Council, comprised of Departmental CIOs and IT managers. We noted that the matrix summarizes and provides clarification for existing purchasing policies, but it does not appear to be documented in County policy where it may be easily referenced by all County personnel.

Recommendations

- 3. Sheriff management ensure that all applicable Chief Information Office reviews/approvals related to information technology procurement are obtained prior to approving Departmental purchase requests.**
- 4. Chief Information Office management work with County Counsel and, if applicable, the Internal Services Department, to consider incorporating the requirements in the Information Technology Procurement matrix into Board Policy 6.020 and/or County purchasing policy.**

Transaction 6 – Sheriff’s Palantir Implementation

According to Sheriff purchasing documentation, in March 2013, the Department used \$500,000 in “Federal Asset Forfeiture” funds to purchase the Palantir Government platform to “allow Department members access to additional datasets that the JRIC shares with other agencies,” such as the Los Angeles and Long Beach Police Departments. LASD indicated that this purchase was initiated for the School Safety

Project, which enables deputies to quickly access information about schools via MDCs in LASD patrol cars, to assist in emergency response situations. In addition, the LASD implementation of Palantir provided deputies with access to Palantir's data analytics from their MDCs.

We reviewed LASD purchase order #SH-13322578 (transaction 6) and supporting documentation, and found that the purchase was properly approved by LASD executive management. We also found that the purchase was reviewed and approved by the CIO, and ISD approved the PO as a sole source.

According to transaction detail from eCAPS, LASD used Federal Forfeiture Special Funds to pay for this purchase. According to the U.S. Department of Justice's *Guide to Equitable Sharing for State and Local Law Enforcement Agencies*, Federal Forfeiture funds may be used for costs associated with the purchase, lease, maintenance, or operation of law enforcement equipment, including computers, computer accessories, and software.

We found no violations of County policy or law related to this transaction.

Transaction 7 – Palantir Purchase for JRIC

This transaction, totaling \$1 million, differed from transactions 2-5 and 8-11 in that the product description on Palantir's quote indicates the purchase is for "Palantir Operations and Maintenance for 1 core," and software, hardware, etc., were not bundled in. The product description on the invoice also differed slightly from the quote, and stated "Annual Support and Maintenance for 1 Palantir Government License, per server core." Although the invoice indicates that what was purchased was annual support and maintenance, there is no period of service indicated on any of the purchasing documents for this transaction.

We noted that the product description on the LASD requisition is the same as that on Palantir's quote. However, the description on the PO includes additional language: "Software-license-core-perpetual-to include all support services, product upgrades, implementation and integration services-hardware-Palantir." ISD staff indicated that at the time, this purchase appeared to be the same as the previous Palantir purchases. Therefore, they added the language from the prior Palantir POs for consistency. Palantir indicated that this purchase was for software operations and maintenance only; no software licenses, servers, or other hardware were included.

County Purchasing Policy #M-1400, Software Upgrades, Maintenance and Support, differentiates between acquisitions related to software maintenance, which is considered personal property (a commodity), and software support, which is considered a service. County procurement policies mandate that Departments obtain a Board contract if requirements for services exceed \$100,000. In addition, County Purchasing Policy #P-3600, Purchase Orders for Services, states when services (e.g., installation, training, etc.) are bundled with the purchase of commodities (including software upgrades, maintenance, etc.) "a Board contract is not required when the service

component is less than or equal to 30% of the total cost,” and the purchase is deemed commodity driven.

The product descriptions used by Palantir for this purchase are inconsistent (using the term “operations” on the quote and “support” on the invoice) and do not provide sufficient detail to determine if Palantir provided maintenance, service, or some combination thereof, as defined in County policy. Also, if both maintenance and service were provided, Palantir’s bundled pricing does not make it possible to determine if the service component is less than 30%, as the costs of each component are not discretely identified.

Because of the ambiguity related to this purchase, and because the product description was different than prior purchases, ISD should have consulted with the Sheriff at the time of the purchase to verify precisely what was being procured, as the Department is the best source of this information. Palantir subsequently indicated that this invoice was for software maintenance, a commodity purchase according to County policy. As indicated, the issues related to Palantir’s bundled pricing model as well as our recommendations are addressed in the Other Issues section of this report.

Maintenance Period

Palantir’s invoice, dated April 1, 2013, states it is for annual support and maintenance for the government licenses held by LASD/JRIC, but the annual period is not indicated on any Palantir or LASD/JRIC purchasing documentation. The Palantir License and Services Agreement indicates that support services will be provided, “for the period of time specified on the first page of this Agreement.” However, no term is indicated for the “Support Services and Product Upgrades” listed in this Agreement. Any services that were listed on the Palantir purchases for cores were noted as “included” at zero cost to the Sheriff.

Palantir staff indicated that one year of support and maintenance from the date of purchase is included with each core, and this invoice was for the service period of March 1, 2013 through February 28, 2014. Palantir staff told us that because the LASD/JRIC cores were purchased at various times (between October 2011 and March 2013), the company billed for all cores at one time to consolidate the maintenance billing to once per year. We noted that based on the number of cores for which Palantir billed for maintenance (52), the company appropriately did not bill for maintenance of the 4 cores purchased in March 2013.

LASD approved payment of this invoice although it did not list the period for which operations and maintenance were to be provided. Vendor invoices must contain sufficient information for the recipient of the goods/services to determine whether the items billed were actually received, are in accordance with the agreement under which they were procured, and are appropriate for payment. Also, invoices should be reviewed by an employee with sufficient knowledge of the purchase to certify that the correct goods/services were received. Absent sufficient information on the invoice or

other supporting documents specifying the period of service purchased, it appears this invoice lacked sufficient information to justify payment.

Recommendations

- 5. Sheriff's management ensure that prior to approving payment, invoices contain sufficient information, e.g., term of service for annual support/maintenance, etc., to determine that items billed were received and are in accordance with the agreement under which they were procured. Also, invoices should be reviewed by an employee with sufficient knowledge to certify that all items billed for have been received.**
- 6. Internal Services Department management ensure that prior to issuing a purchase order, the requesting department provides sufficient information, e.g., term of service for annual support/maintenance, product description, etc., to determine precisely what goods/services are being procured, and whether the items are being procured in accordance with applicable agreements.**

Approvals

Documentation provided by the Sheriff indicates that the City and Cal OES approved the use of UASI grant funds for this purchase. As indicated, ISD approved the PO as a sole source commodity purchase.

This purchase was made in April 2013, before the requirements of the CIO's IT Procurement matrix were developed, and it was not submitted to, or reviewed by, the CIO. As noted above, the CIO identified the need for and has developed enhanced protocols to ensure that departments obtain any appropriate CIO reviews and/or approvals prior to IT-related purchases.

Transaction 12 – Retroactive Payment

On April 3, 2015, LASD submitted a letter notifying your Board of the need to make an immediate \$1.05 million payment to Palantir, and that the requested PO from ISD would be retroactive for the period that began on March 1, 2014. LASD's letter also indicated that the request was deemed urgent as the original March 31, 2015 deadline for submitting requests to the City for UASI grant reimbursement had passed, but was subsequently extended until April 10, 2015.

Purchasing documentation indicates that in early 2014, Palantir billed the Sheriff for core support and maintenance for the upcoming service year, i.e., the maintenance period of March 1, 2014 through February 28, 2015 (this period was later modified, as discussed below). We noted that this purchase, as with transaction 7, was different from the other Palantir purchases in that it did not include bundled commodity items such as software licenses, product upgrades, hardware, etc., and was instead a

purchase of “operations and maintenance services.” It appears that this difference, as well as unexplained delays and other factors, impacted the processing of this purchase resulting in the retroactive payment. Specifically:

- According to JRIC, Palantir submitted its first quote on January 9, 2014. However, JRIC staff rejected the quote because it specified the wrong service period. The revised quote included with the Sheriff’s purchasing documents is dated September 30, 2014, and the Sheriff did not give final approval for payment until November 3, 2014. Neither JRIC nor the Sheriff could explain the delay in obtaining a corrected quote or processing it for payment.
- LASD indicated that JRIC should have provided the quote to LASD, but did not in this case. LASD staff indicated that upon receiving the invoice (on an unknown date), it was determined to be for services rather than a commodity, and that the invoice was returned to JRIC to obtain a contract, as required by County purchasing policies. On January 26, 2015, LASD management requested assistance from ISD to obtain a maintenance and support services contract with Palantir.
- CIO staff indicated they initially did not approve this purchase upon their first review, on March 24, 2014. CIO staff also indicated they recommended that LASD obtain a contract with Palantir, since they were procuring services only. However, by mid-2014, LASD had not made any progress toward obtaining a contract. Ultimately, the CIO approved the purchase on November 24, 2014, without a contract.
- As with transaction 7, the product description stated “Annual Support and Maintenance” for one year without separately identifying the costs of support (i.e., service) and maintenance (commodity). ISD moved forward with the PO on approximately April 8, 2015, after receiving a County Counsel opinion that the Palantir invoice for annual maintenance was considered a commodity and fell within the ISD Purchasing Agent’s authority to procure.
- UASI grant performance periods vary from year to year, and purchases may only be made for a given grant period if they are pre-approved by Cal OES. This purchase did not have such approval because the service period on the invoice fell within a grant period which had already closed. The Palantir invoice indicated the term as March 1, 2014 through February 28, 2015, and LASD submitted its request to the City to use “UASI13” funding, i.e., funding from UASI grant, performance period 13 (August 29, 2013 through May 31, 2015). LASD did not have pre-approval to use UASI13 funds for the sole source purchase from Palantir for the entire term invoiced. LASD was later able to obtain approval for grant funding for two six-month periods, March 1, 2014 through August 15, 2014, and December 4, 2014 through May 31, 2015. Palantir waived its service charges for the interim period.

In 2007, the CEO established the Retroactive Contract Review Committee (RCRC) in response to prior Board concerns regarding retroactive contracts. The CEO also created procedures that require departments to notify the CEO in advance of seeking Board approval for retroactive contracts/payments, and state that departments must provide the RCRC with a written report indicating the cause and corrective action plan to help prevent recurrence. In an April 3, 2015 letter to your Board, the Sheriff stated that the Department plans to work with the CEO's RCRC for disposition and approval of a corrective action plan to mitigate the issue of retroactive payments.

Recommendations

Sheriff's management:

- 7. Ensure that Sheriff's procurement staff are appropriately trained on County policies related to contracting, retroactive payments, and the importance of ensuring that agreements are in place, where required, before incurring costs for services.**
- 8. Follow through with the Chief Executive Office Retroactive Contract Review Committee's established procedures to help prevent additional retroactive payments.**

Federal and State Grant Reimbursement

As indicated, LASD made 11 of the 12 purchases from Palantir on behalf of JRIC, which is UASI grant funded. (The exception was transaction 6, which was for LASD only, using Federal Asset Forfeiture funds). We found that LASD properly submitted claims to the City and was reimbursed for all of the Palantir purchases for JRIC.

Other Issues

Palantir Pricing Model

As noted above, Palantir uses an opaque pricing model and does not discretely identify to customers the costs of software, hardware, equipment, and professional services. This bundled pricing model impaired the application of County policies requiring that certain categories of purchases be approved by the Board, and that capital assets be identified and recorded in the County's accounting system. The following issues should be resolved to prevent future problems with similar purchases:

Commodities Versus Services

The County's purchasing policies differentiate between purchases of commodities and services. County Purchasing Policy #P-3600 states that service contracts that exceed \$100,000 annually must be awarded by the Board. As indicated, the Policy also states that when services are bundled with the purchase of commodities, a Board contract is not required when the service component is less than or equal to 30% of the total cost,

i.e., the purchase is deemed commodity driven. In addition, County Purchasing Policy #M-1400 provides that for purchases of software, upgrades and maintenance are both treated as commodities, but software support is a service and subject to the \$100,000 limit.

On its quotes to LASD, Palantir listed support services at zero cost (or in one instance, at less than 30% of the total cost). ISD purchasing managers determined that because of this bundled pricing, the Palantir purchases subsequent to the pilot were commodity driven. As indicated, a Palantir core is generally described on its invoices as including perpetual software licenses, support services, product upgrades, implementation and integration, and hardware appliances. This bundled pricing model does not allow the County to differentiate the portions of cost associated with commodities (e.g., software licenses and maintenance) from the cost of services (e.g., support services), and creates uncertainty concerning the appropriate authority to approve the purchase and which purchasing process to follow.

ISD provided correspondence indicating that prior to issuing the PO for transaction 12, management sought additional information from Palantir concerning the cost of the service portion, as well as guidance from County Counsel to determine if this transaction met the criteria for a commodity purchase. Based on Palantir's representation, County Counsel deemed the transaction a commodity purchase.

ISD is in the process of implementing additional management review related to sole source purchases over \$1 million, and ISD staff are drafting a policy to address this. To ensure that departments meet County purchasing requirements related to services, such additional oversight should also be applied to purchases where the service component may exceed \$100,000 (i.e., may require a Board contract).

Recommendation

- 9. Internal Services Department management finalize procurement policies that provide guidelines for additional management review and oversight of purchases that may include a service component exceeding \$100,000 annually, where the costs of goods and commodities and services are not separately identifiable.**

Palantir Pricing

We obtained the U.S. General Services Administration (GSA) Awarded Federal Pricelist for Palantir from the GSA website and found that the GSA price for the Palantir Perpetual License is \$141,015 per server core, which includes initial year operations and maintenance (similar to the Sheriff's purchases). Compared with GSA pricing, it appears that LASD paid approximately \$16,000 less per core than Palantir charges the federal government. According to LASD's Sole Source Request for the pilot program, LASD received a "special discount because it will be the first in the L.A. basin to use this software." Palantir staff indicated that at the time of the original purchase, Palantir

provided JRIC a discount because they viewed working with the fusion center as a good partnership.

LAPD and Palantir

According to an LAPD representative, LAPD independently procured its own Palantir platform with grant funds it received from the Los Angeles Police Foundation. The Foundation applied for the grant from the Target Corporation, and the Foundation subsequently donated the funds received to LAPD. We learned that the LAPD interviewed five vendors for intelligence software, and ultimately selected Palantir. However, they did not go through the standard City procurement process since the purchase was grant funded.

LAPD is a member of JRIC, and when they discovered JRIC used Palantir, LAPD established a data sharing agreement with JRIC in 2011. LAPD did not respond to follow up calls regarding the price paid per core by LAPD.

Recommendations

- 10. Sheriff's management work with County Counsel, Palantir, and if applicable, the Internal Services Department to negotiate pre-approved and the most economic pricing for future Palantir core purchases.**
- 11. Internal Services Department management work with County Counsel to develop procurement policies that provide guidance to Departments in situations where a vendor cannot or will not discretely identify the costs of commodity and service components of a purchase, to ensure such purchases are properly disclosed to the Board when required.**

Future Contract for IT Services

Currently, maintenance and support for JRIC's Palantir platform are paid for via an ISD-issued purchase order. As indicated, the CIO initially did not approve the \$1.05 million invoice for maintenance and support due to the lack of a formal agreement. ISD and LASD management also expressed concerns regarding the lack of documented and defined specifications for JRIC's data analysis system, and the potential need for a County contract with Palantir.

LASD correspondence related to the maintenance and support purchase indicates the JRIC's Palantir system will require annual support services, and that the Department intends to negotiate a service contract with Palantir. County Purchasing Policy #P-3600 indicates that, "Service is the performance of labor by an outside firm or contractor for and/or on behalf of County departments. It can be rendered to the County by a firm or individual, with or without the furnishing of materials." Given the varying descriptions of products/services indicated on Palantir's quotes and invoices, LASD should ensure that any future contract with Palantir contains sufficient information so that services can be differentiated from commodities.

Recommendations**Sheriff's management:**

- 12. Work with County Counsel and Palantir to establish agreed-upon contract terminology such that Palantir's products can be classified and differentiated as "commodities" and "services."**
- 13. Work with County Counsel and if applicable, the Internal Services Department, to establish a Board-approved contract for service purchases from Palantir.**

California Sales Tax on Equipment - Servers

Palantir indicated that ten of the purchases included servers, which are tangible property. According to the State Board of Equalization (BOE), Regulation 1502, purchases of tangible property are subject to sales tax. This Regulation, which addresses computers, programs, and data processing, also provides that sales taxes may be applicable to the sale of storage media for computer programs, but custom computer programs and service-related purchases, such as for training, etc., are not taxable. However, service charges may be taxable if the services are "performed as part of the sale of tangible personal property."

We noted that the Palantir License and Services Agreement specifically states that the customer is responsible for all applicable taxes, including sales tax. The invoices for the ten transactions do not list sales taxes, the POs all indicate that the tax due is \$0, and we found no evidence that the Sheriff paid sales tax on these purchases. Also, ISD staff indicated that because they were not aware that the purchases included servers, they did not believe sales tax was applicable. Palantir's counsel indicated that, "LASD/JRIC did not get charged any sales tax for these purchases, and Palantir paid any applicable sales tax on LASD/JRIC's behalf as part of our commitment to the firm-fixed price," i.e., the pricing mechanism offered to LASD/JRIC.

While the BOE holds the vendor responsible for payment of sales taxes, if the vendor does not pay, the sales tax may become a County liability. Since the purchases in question included servers (i.e., tangible property), and there is no evidence that taxes were collected or paid (other than Palantir's statement), the County may incur a tax liability as a result of this transaction. Palantir's practice of bundling equipment and services, and its refusal to provide a breakdown of costs, makes it difficult to estimate the amount of any possible tax liability.

Recommendations

Sheriff's and Internal Services Department management:

- 14. Work with Palantir to determine the cost basis of any taxable items purchased and the taxability of any services received under these purchases, and obtain written verification of all State sales tax paid by Palantir related to each purchase.**
- 15. Request that Palantir include in all future invoices a separate line item for sales tax, and a representation as to who has paid or is responsible for paying the taxes to the Board of Equalization.**



OFFICE OF THE SHERIFF

COUNTY OF LOS ANGELES

HALL OF JUSTICE

JIM McDONNELL, SHERIFF



August 17, 2015

John Naimo, Auditor-Controller
Department of Auditor-Controller
525 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Dear Mr. Naimo:


**LOS ANGELES COUNTY SHERIFF'S DEPARTMENT'S RESPONSE TO THE
AUDITOR-CONTROLLER'S REVIEW OF TRANSACTIONS BETWEEN
LOS ANGELES COUNTY AND PALANTIR TECHNOLOGIES, INC.**

Enclosed is the Los Angeles County (County) Sheriff's Department's (Department) response to the Auditor-Controller's Review of Transactions between the County and Palantir Technologies, Inc., as directed at the Board of Supervisors meeting (Board Agenda Item 7) on April 14, 2015. The Department's response acknowledges its continued support as the fiduciary for the Joint Regional Intelligence Center (JRIC), including responsibility to appropriately manage the United States Department of Homeland Security Grant programs on behalf of JRIC.

The Department is in agreement with the Auditor-Controller's findings, and will continue to work with the Internal Services Department, Chief Information Office, and County Counsel to implement the recommendations in the report.

If you have any questions or require additional information, please contact Division Director Glen Dragovich, Administrative and Training Division, at (213) 229-5191 or Manager Chuck Porter at (213) 229-3320.

Sincerely,



JIM McDONNELL
SHERIFF

211 WEST TEMPLE STREET, LOS ANGELES, CALIFORNIA 90012

A Tradition of Service
— Since 1850 —

**THE LOS ANGELES COUNTY SHERIFF'S DEPARTMENT'S RESPONSE TO THE
AUDITOR-CONTROLLER'S REVIEW OF TRANSACTIONS BETWEEN
LOS ANGELES COUNTY AND PALANTIR TECHNOLOGIES, INC.**

Transaction 1 -- Palantir Pilot Project

Equipment - Servers

RECOMMENDATION 1:

Sheriff's management revise its listing of equipment purchased with Urban Areas Security Initiative and State Homeland Security Grant Program funds to comply with the record keeping requirements specified in Title 44 Code of Federal Regulations (CFR), Part 13.

Sheriff's Response to Recommendation 1: Agree

The Department is in the process of updating the inventory listing of servers/hardware in accordance with reporting requirements of CFR 44, Part 13 and the County Fiscal Manual (CFM) section 6.1.0 Capital Assets.

RECOMMENDATION 2:

Sheriff's management determine or estimate the acquisition cost of Palantir servers, record any Palantir hardware that meets the County's definition of a Capital Asset (i.e., costing \$5,000 or more) in eCAPS, as required by CFM Section 6.1.0, and implement procedures to ensure that future capital asset purchases are appropriately recorded.

Sheriff's Response to Recommendation 2: Agree

The Department is evaluating each of the 44 servers purchased from Palantir to determine each server's acquisition cost and will record in eCAPS those servers meeting CFM's 6.1.0 capital asset definition. In addition, procedures will be implemented to ensure that future capital asset purchases are appropriately recorded.

Transactions 2-5 and 8-11 -- Palantir Purchases for JRIC

RECOMMENDATION 3:

Sheriff's management ensure that all applicable Chief Information Office reviews/approvals related to information technology procurement are obtained prior to approving Departmental purchase requests.

Sheriff's Response to Recommendation 3: Agree

The Department is in the process of developing procedures that ensure all information technology purchases are reviewed/approved by the Chief Information Office prior to approving Departmental purchasing requests.

Transaction 7 – Palantir Purchase for JRIC

RECOMMENDATION 5:

Sheriff's management ensure that prior to approving payment, invoices contain sufficient information, e.g., term of service for annual support/maintenance, etc., to determine that items billed were received and are in accordance with the agreement under which they were procured. Also, invoices should be reviewed by an employee with sufficient knowledge to certify that all items billed for have been received.

Sheriff's Response to Recommendation 5: Agree

The Department will ensure that procedures for the review and approval of invoices are strictly enforced to ensure all required information is contained in the invoice, and that the appropriate level of management has reviewed all items billed for and have been received.

Transaction 12 – Retroactive Payment

RECOMMENDATION 7:

Sheriff's management ensure that procurement staff are appropriately trained on County policies related to contracting, retroactive payments, and the importance of ensuring that agreements are in place, where required, before incurring costs for services.

Sheriff's Response to Recommendation 7: Agree

The Department will ensure that all operational division staff are appropriately trained on County policies related to contracting, (i.e., sole source agreements), retroactive payments, and assurance that agreements are in place before costs for services are incurred.

RECOMMENDATION 8:

Sheriff's management follow through with the Chief Executive Officer's (CEO) Retroactive Contract Review Committee's (RCRC) established procedures to help prevent additional retroactive payments.

Sheriff's Response to Recommendation 8: Agree

In an April 3, 2015, letter to the Board of Supervisors, the Department indicated its plans to work with the CEO RCRC for disposition and approval of a corrective action plan to mitigate the issue of retroactive payments.

Other Issues

Palantir Pricing Model

RECOMMENDATION 10:

Sheriff's management work with County Counsel, Palantir, and if applicable, the Internal Services Department to negotiate pre-approved and the most economic pricing for future Palantir core purchases.

Sheriff's Response to Recommendation 10: Agree

The Department will work with County Counsel, Palantir, and the Internal Services Department to negotiate pre-approved and economically priced future Palantir core purchases.

Contract for IT Services

RECOMMENDATION 12:

Work with County Counsel and Palantir to establish agreed-upon contract terminology such that Palantir's products can be classified and differentiated as "commodities" and "services."

Sheriff's Response to Recommendation 12: Agree

The Department will work with County Counsel and Palantir to establish agreed-upon contract terminology such that Palantir's products can be classified and differentiated as "commodities" and "services."

RECOMMENDATION 13:

Work with County Counsel and if applicable, the Internal Services Department, to establish a Board-approved contract for service purchases from Palantir.

Sheriff's Response to Recommendation 13: Agree

The Department will work with County Counsel and the Internal Services Department to establish a Board-approved contract for service purchases from Palantir.

California Sales Tax on Equipment - Servers

RECOMMENDATIONS:

Sheriff's and Internal Services Department management:

RECOMMENDATION 14.

Work with Palantir to determine the cost basis of any taxable items purchased and the taxability of any services received under these purchases, and obtain written verification of all state sales tax paid by Palantir related to each purchase.

Sheriff's Response to Recommendation 14: Agree

Sheriff's management, in consultation with the Internal Services Department and the Audit-Controller's Disbursement Division, will determine the cost basis and applicable tax liability of services received and products purchased from Palantir and obtain written verification that all California Sales Taxes have been paid.

RECOMMENDATION 15.

Request that Palantir include in all future invoices a separate line item for sales tax, and a representation as to who has paid or is responsible for paying the taxes to the Board of Equalization.

Sheriff's Response to Recommendation 15: Agree

Sheriff's management will require Palantir to include in all future invoices a separate line item for sales tax and acknowledge its responsibility as a California Corporation to pay the appropriate tax to the Board of Equalization.



JIM JONES
Director

**County of Los Angeles
INTERNAL SERVICES DEPARTMENT**

1100 North Eastern Avenue
Los Angeles, California 90063

"To enrich lives through effective and caring service"

Telephone: (323) 267-2103
FAX: (323) 264-7135

August 24, 2015

To: John Naimo
Auditor-Controller

From: Dave Chittenden
Chief Deputy Director

A handwritten signature in black ink, appearing to read "D. Chittenden", is written over the printed name of the Chief Deputy Director.

Subject: **RESPONSE TO THE SHERIFF'S DEPARTMENT – REVIEW OF
TRANSACTIONS BETWEEN LOS ANGELES COUNTY AND PALANTIR
TECHNOLOGIES, INC. (Board Agenda Item 7, April 14, 2015)**

Attached are our responses to the recommendations involving Internal Services Department contained in your report (attached).

If you need any additional information, please contact me or your staff may contact Dave Yamashita at (323) 267-2136 or via email at dyamashita@isd.lacounty.gov.

DC:DY:rc
Attachment

c: CIO

INTERNAL SERVICES DEPARTMENT

**RESPONSE TO THE AUDITOR-CONTROLLER AUDIT REPORT
SHERIFF'S DEPARTMENT – REVIEW OF TRANSACTIONS BETWEEN
LOS ANGELES COUNTY AND PALANTIR TECHNOLOGIES, INC.
(Board Agenda Item 7, April 14, 2015)**

Recommendation 6: Internal Services Department ensure that prior to issuing a purchase order, the requesting department provides sufficient information, e.g., term of service for annual support/maintenance, product description, etc., to determine precisely what goods/services are being procured, and whether the items are being procured in accordance with applicable agreements.

ISD Response:

We concur.

ISD will enhance its existing internal procedures to ensure that Purchasing staff (buyers) review all purchasing requests and require all relevant information from the Departments prior to issuing the purchase orders.

Target Date: November 30, 2015

Recommendation 9: Internal Services Department management finalize procurement policies that provide guidelines for additional management review and oversight of purchases that may include a service component exceeding \$100,000 annually, where the costs of goods and commodities and services are not separately identifiable.

ISD Response:

We concur.

ISD is in the process of revising its existing internal procedures to incorporate additional management approval levels, to ensure adequate oversight for all purchases, including sole source purchases.

Target Date: November 30, 2015

Recommendation 11: Internal Services Department management work with County Counsel to develop procurement policies that provide guidance to Departments in situations where a vendor cannot or will not discretely identify the costs of commodity and service components of a purchase, to ensure such purchases are properly disclosed to the Board when required.

INTERNAL SERVICES DEPARTMENT

**RESPONSE TO THE AUDITOR-CONTROLLER AUDIT REPORT
SHERIFF'S DEPARTMENT – REVIEW OF TRANSACTIONS BETWEEN
LOS ANGELES COUNTY AND PALANTIR TECHNOLOGIES, INC.**

(Board Agenda Item 7, April 14, 2015)

ISD Response:

We concur.

ISD will work with County Counsel in revising existing procurement policies to require vendors to itemize commodity and service components of a purchase separately.

Target Date: February 29, 2016

Recommendation 15: Internal Services Department request that Palantir include in all future invoices a separate line item for sales tax, and a representation as to who has paid or is responsible for paying the taxes to the Board of Equalization.

ISD Response:

We concur.

See ISD response to Recommendation 11.

ISD will work with County Counsel in revising existing procurement policies to ensure that each purchase includes sales tax information and identify the party responsible for the payment of taxes.

Target Date: February 29, 2016



RICHARD SANCHEZ
CHIEF INFORMATION OFFICER

COUNTY OF LOS ANGELES
CHIEF INFORMATION OFFICE
Los Angeles World Trade Center
350 South Figueroa Street, Suite 188
Los Angeles, CA 90012

Telephone: (213) 253-5600
Facsimile: (213) 633-4733

August 24, 2015

TO: John Naimo
Auditor-Controller

FROM: Richard Sanchez
Chief Information Officer

A handwritten signature in dark ink, appearing to read "Richard Sanchez", is written over the printed name in the "FROM:" field.

PALANTIR REVIEW

Thank you for providing an opportunity to participate, review and discuss findings of your recent audit concerning the Sheriff and Palantir Technologies.

The Chief Information Office concurs with the recommended action and we wish to commend the staff of the Auditor-Controller for their professionalism, patience and demeanor in this effort.

RS:lc